

**BILL #** HB 2126

**TITLE:** nonstate aid school districts; growth

**SPONSOR:** Arnold

**STATUS:** As Amended by House Appropriations

**REQUESTED BY:** House

**PREPARED BY:** Steve Schimpp

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**FISCAL YEAR**

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**2003**

**2004**

**2005**

**EXPENDITURES**

General Fund

\$-0-

See Below

**FISCAL ANALYSIS**

**Description**

HB 2126 would allow a “non-state aid” school district to increase its property tax rate in order to fund anticipated enrollment growth, subject to certain limitations.

**Estimated Impact**

The bill is estimated to have a cost, but the magnitude is significantly affected by 2 factors. First, there are 2 different legal interpretations of the bill. Second, the cost impact is less when the bill is compared to current practice, as opposed to current law.

Legislative Council interprets the bill as applying to school districts that are “non-state aid” for at least *some* of their pupils. Under this interpretation, we estimate that 18 school districts would be affected relative to current law, but that only 2 school districts (Saddle Mountain Unified and Scottsdale Unified) would be affected relative to current practice. Under this interpretation we estimate that state General Fund costs for the Homeowner’s Rebate (A.R.S. § 15-972) in FY 2004 would increase by \$825,700 relative to current law (18 districts), but by \$189,400 relative to current practice (Saddle Mountain Unified and Scottsdale Unified only).

The Department of Education (ADE) interprets the bill as applying only to school districts that are “non-state aid” for *all* of their pupils. Under this assumption, we conclude that 8 school districts would be affected relative to current law, but that only 1 district (Saddle Mountain Unified) would be affected relative to current practice. Under this interpretation we estimate that Homeowner’s Rebate costs for FY 2004 would increase by \$440,000 relative to current law (8 districts), but by \$400 relative to current practice (Saddle Mountain Unified only).

ADE does not have a separate fiscal impact estimate for the bill.

**Analysis**

A.R.S. § 15-948, Subsection C, allows a school district to increase its Basic State Aid budget partway through a fiscal year if its 40<sup>th</sup> day Average Daily Membership (ADM) count indicates that it is experiencing enrollment growth. A similar statutory provision, however, does not exist for a school district that does not receive Basic State Aid (a “non-state aid” district). (Non-state aid districts are school districts that do not qualify for Basic State Aid funding because of their high property wealth per pupil. Some school districts are “non-state aid” for all of their pupils, whereas others are “non-state aid” for their high school pupils only.) As a result, a non-state aid district may have to issue “warrants” in order to pay for its current year enrollment growth. It then has to reimburse the county treasurer for warrant costs, including interest, through monies generated from school property taxes in a subsequent year. HB 2126 seeks to address this issue by allowing non-state aid districts to include “up front” in their tax rates each year an increase for estimated enrollment growth.

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## Analysis (Cont'd)

HB 2126 potentially would have a short-term state fiscal impact by increasing "Homeowner's Rebate" costs pursuant to A.R.S. § 15-972. This is because the bill could cause local primary property tax rates to increase, at least in the short term, in order to pay for current year ADM growth. This would increase the amount of taxes owed by homeowners and, hence, the cost of the Homeowner's Rebate. Relative to *current law*, we estimate that costs of the Homeowner's Rebate would increase by \$825,700 under the Legislative Council interpretation of the bill and by \$440,000 under the ADE interpretation. Relative to *current practice*, however, we estimate that Homeowner's Rebate costs would increase by \$189,400 under the Legislative Council interpretation and by \$400 under the ADE interpretation.

Our "current law" versus "current practice" estimates differ because most school districts that potentially would be affected by the bill apparently already set their local property tax rates high enough to pay for estimated "current year" enrollment growth. This appears to be the case because only 2 potentially affected school districts (Saddle Mountain Unified and Scottsdale Unified) include reimbursement for past warrant interest costs in their FY 2003 budgets. A.R.S. § 15-910(L), allows a school district to increase its local primary property tax rate for a budget year in order to recoup interest costs on warrants from the prior fiscal year. If other potentially affected districts were not generating enough local tax monies to fund "current year" enrollment growth, we would expect them to likewise be budgeting for reimbursement of warrant interest costs during FY 2003.

Based on 3-year average ADM growth rates for potentially affected districts and their estimated per pupil costs for non-state aid pupils for FY 2003, we estimate that the amount of locally-generated funding that affected districts would be allowed to generate on a "current year" basis under the bill would range from about \$310,000 under the "ADE/current practice" scenario to approximately \$4.6 million under the "Legislative Council/current law" scenario. It is from these projections that we computed estimated changes in Homeowner's Rebate costs under the bill.

Our Homeowner's Rebate estimate for the "ADE/current law" scenario, for example, was computed by multiplying the projected increase in local property tax levies under the bill in FY 2004 for Saddle Mountain Unified (\$310,000) [Saddle Mountain would be the only district affected under that scenario] times the percentage of the total tax base in Saddle Mountain Unified that is attributable to owner-occupied homes (0.4%) [only owner-occupied homes qualify for the Homeowner's Rebate] times the 35% rebate factor that is prescribed for homeowners in A.R.S. § 15-972 ( $\$310,000 \times 0.4\% \times 35\% = \$400$ ). A.R.S. § 15-972 requires the state to pay 35% of each homeowner's primary property tax levy for schools, up to a maximum of \$500 per parcel of property.

The \$400 cost estimate for "ADE/current practice" reflects the fact that the Palo Verde Nuclear Generating Station (PVNGS) is located within the boundaries of the only school district that would be affected by the bill under that scenario (Saddle Mountain Unified). Homeowners in Saddle Mountain Unified currently pay less than 1% of total local property tax levies for the district because of the influence of the PVNGS within its tax base. This greatly reduces Homeowner's Rebate costs for the district, including potential increases in Homeowner's Rebate costs under the bill.

## Local Government Impact

We estimate that primary property tax collections statewide for FY 2004 would increase by \$310,000 ("ADE/current practice") to \$4.6 million ("Legislative Council/current law") under the bill. In the long run, we would anticipate that short-term increases in primary property tax collections for affected districts under the bill would be offset by the elimination in interest costs on warrants. This is because the affected districts would no longer need to issue warrants in order to pay for costs of current year enrollment growth.